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## **Proposal for Tariff Rate Quota Reform**

### Submission from the United States

The United States believes continued successful agricultural trade reform rests upon the willingness of members to provide non-discriminatory market access opportunities in conjunction with the reduction of trade distorting support, as presented in the U.S. proposal for comprehensive long term agricultural reform, G/AG/NG/W/15 of 23 June 2000. To achieve that goal, the United States further believes that in the next round of agricultural trade negotiations members need to reach an agreement that expands market access opportunities - including through tariff cuts and quota expansion - and protects against measures that would circumvent commitments by imposing unjustifiably burdensome requirements on importers and exporters.

During the Uruguay Round, members agreed to a tariff rate quota (TRQ) system as the most appropriate method to ensure market access during the transition from an agricultural trading system of complex tariffs and non-tariff barriers to a tariff-only regime. As part of attaining the United States' objectives to reduce trade distortions and limit protection, identified in G/AG/NG/W/15, the United States proposes further reform of TRQs as integral to further agricultural trade reform.

During implementation of the Uruguay Round Agreement on Agriculture, the majority of members' TRQs have operated effectively. The most recent WTO assessment reports that over half of the TRQ's have filled to eighty percent of their capacity. However, the United States believes certain administrative practices have hampered the performance of some TRQs, accounting for the lower rates at which they have filled - their fill rate - and likewise diminishing the market access they were designed to afford.

An effective TRQ system should only restrict trade to the extent it limits the quantity of goods allowed access to a market at the low in-quota duty rate. However, poor administration of TRQs and high in-quota duties have prevented exporters from filling TRQs. In other instances, exporters have not been able to meet fully market demands because members have administered their TRQs in a manner that has restricted products or suppliers, or both, or has raised the price of imports.

Therefore, the United States believes that in the next phase of liberalization, members should agree to improvements to the TRQ system, based on a four-pronged approach to promote effective market access for suppliers and to enable them to reflect more accurately market demands. These improvements, based on the principles identified in G/AG/NG/W/15, along with

reforms in export competition and trade-distorting domestic support, will contribute to a more fair and market-oriented agricultural trading system.

- First, the United States proposes that members agree to develop additional disciplines for TRQs that ensure that TRQ administration does not become a barrier to trade.
- Second, the United States proposes that members agree to reduce in-quota duties based on the historical performance of TRQ fill rates - the lower the fill rate, the deeper the cut.
- Third, as stated in the U.S. comprehensive proposal, the United States proposes that members cut tariffs using an approach that reduces disparities across countries and progressively increase TRQ quantities.
- Fourth, the United States proposes that members agree to an automatic trigger mechanism to reduce in-quota duties when TRQ fill is low.

## **I. Improvement of General Disciplines for TRQ Administration**

Several WTO agreements, including the Agreement on Import Licensing Procedures, as well as Articles X and XIII of the GATT, include disciplines applicable to TRQ administration. These disciplines have helped guide members in establishing TRQs, and in some cases helped resolve disputes over market access restrictions. The United States believes that if members elaborate upon these disciplines, they will make agricultural TRQs more effective, thus minimizing the distortions, reducing trade barriers, and reducing the need for members to resort to the dispute settlement process. The United States proposes that the improved disciplines be based on the following principles:

- **Transparency:** The United States proposes to clarify and expand the Agreement on Import Licensing Procedures guidance on transparency and GATT's Article X guidance on timely and effective communication, to inform members of acceptable methods of disciplining TRQ administration. For example, disciplines developed for agricultural TRQs could require members to publish and otherwise make widely publicly available quota allocation dates, license validity periods, standard communication mediums, and procedures for changes in the quota system. Improved transparency will allow potential importers and exporters ready access to timely and relevant information regarding quotas so they can respond most effectively to market demand and take advantage of the TRQ in a non-discriminatory manner.
- **Non-Restrictiveness:** The Analysis and Information Exchange process and the Committee on Agriculture have documented administrative practices that restrict the extent to which exporters fill TRQs or limit access to a narrow portion of the market demand. To remedy these restrictions, the United States proposes that members agree to new disciplines based on the provisions of the WTO Agreement on Import Licensing Procedures and relevant GATT Articles to ensure that imports are not limited to unprocessed bulk commodities to the disadvantage of processed products; to prevent end use specifications that limit imports; to prevent mixing requirements or other domestic purchase criteria; to correct distortions resulting from the distribution of licenses through domestic producer groups and license matching schemes; to prevent restrictive re-export requirements; and to assure the allocation of commercially viable quantities. The goal of these new disciplines is to ensure that administration of TRQs does not restrict trade, thus providing to members the opportunity to fill TRQs with products that best reflect consumer demand.

- **Reallocation:** Many TRQ administrative practices, particularly the use of import licenses, do not permit sufficient reallocation to allow exporters to fill TRQs. The United States proposes that members develop new disciplines on license reallocation, such as requirements that licensees surrender unused licenses if they cannot arrange shipments within specified time periods. Members would reallocate, in a timely fashion, unused licenses to provide sufficient commercially viable opportunities for other importers, including new entrants.

## **II. Market Access through Reduction of In-Quota Tariffs and Expansion of TRQ Amounts**

The United States proposes that members commit themselves to continuing the reform process initiated in the Uruguay Round by progressively moving members to true tariff-only regimes by taking the next step towards the eventual phase-out of transitional TRQs. Consistent with the objective of reducing and eliminating disparities in tariff levels as identified in the U.S. comprehensive proposal G/AG/NG/W/15, while taking into account the particular interest of improving access for developing countries that have had little or no access to markets under existing TRQ arrangements, the United States proposes that members agree:

- to establish in-quota duties based on historical quota fill, so that the lower the historical TRQ fill, the greater the reduction in the in-quota duty;
- to provide increases in TRQ quantities on a Most Favored Nation basis to ensure broad availability of market access opportunities to all members;
- to increase substantially TRQ quantities; and
- to reduce substantially out-of-quota duties.

## **III. Quantitative Trigger Mechanism Based on Quota Fill Rates**

The United States believes members should commit themselves to improve the effectiveness of TRQ market access by reducing in-quota duties when fill rates are low so that if a member's TRQ does not achieve a fixed percentage fill rate after a specified period of time, that member would lower the in-quota rate to provide improved access.

## **IV. Conclusion**

The objective of market access reform in the next round of multilateral trade negotiations is to reduce barriers to trade in agricultural products. TRQs serve an important interim function as members increase access to their markets while phasing out tariff barriers. The United States believes that these negotiations will succeed to the extent they produce substantial immediate improvement in market access opportunities and ensure members adhere to commitments made in these and previous negotiations by disciplining unjustifiably burdensome import requirements.

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